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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
GOODMAN WATER COMPANY, AN
ARIZONA CORPORATION, FOR (i) A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
(ii) AN INCREASE IN ITS WATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

Docket No. W-02500A-10-0382

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Testimony of Jodi A. Jerich, in support of the Settlement Agreement in the above-referenced
matter.

RESPECTFULLY SUBMITTED this 4th day of October, 2011.

Arizona Corporation Commission

DOCKETED

OCT 4 2011

DOCKETED BY

Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 4th day
3 of October, 2011 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 4th day of October, 2011 to:

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8 Administrative Law Judge
9 Hearing Division
10 Arizona Corporation Commission

11 Janice Alward, Chief Counsel
12 Legal Division
13 Arizona Corporation Commission

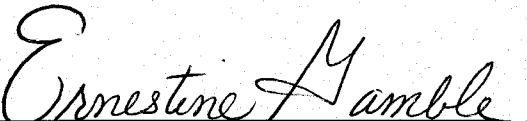
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GOODMAN WATER COMPANY

DOCKET NO. W-02500A-10-0382

TESTIMONY

OF

JODI A. JERICH

IN SUPPORT OF SETTLEMENT AGREEMENT

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

OCTOBER 4, 2011

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1 **Q. Please state your name, occupation and business address for the**
2 **record.**

3 A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility
4 Consumer Office (RUCO). My business address is 1110 W. Washington
5 Street, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Have you filed testimony previously in this docket?**

8 A. Yes. I filed surrebuttal testimony in this docket.

9
10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to explain the reasons why RUCO supports
12 the proposed Settlement Agreement.

13
14 **SETTLEMENT PROCESS**

15 **Q. Have you, in your role as RUCO Director, participated in other**
16 **settlement negotiations?**

17 A. Yes. As Director, I have participated in settlement negotiations in other
18 matters that have come before the Corporation Commission.¹ The majority
19 of these negotiations have resulted in RUCO reaching an accord with the
20 other settling parties and signing a settlement agreement. On the other
21 hand, I have walked away from settlement talks when negotiations

¹ 2008 APS Rate Case, Docket No. E-01345A-08-0172 (Decision No. 71444); 2010 Qwest/
CenturyLink Merger, Docket No. T-04190A-10-0194 (Decision No. 72232), 2010 SW Gas Rate
Case, Docket No. G-01551A-10-0458 (Pending).

1 produced a result that RUCO found was not in the best interest of
2 residential ratepayers. RUCO does not enter into settlements lightly. The
3 decision to enter settlement talks and participate in good faith does not
4 always lead to RUCO signing a settlement agreement. RUCO will not agree
5 to settle simply as a means of avoiding litigation. However, in this matter,
6 negotiations did produce a solid end product that RUCO can and does
7 support.

8
9 **Q. Was the negotiation process that resulted in the Settlement Agreement**
10 **a proper and fair process?**

11 A. Yes. The Settlement Agreement is the product of candid discussions
12 between representatives of Goodman Water Utility (Goodman), RUCO,
13 and the individual intervenors, Jim Schoemperlen and Larry Wawrzyniak.
14 All participants had an opportunity to meaningfully participate throughout
15 the negotiations. The participants were able to express their positions
16 fully.

17
18 These talks produced a well-balanced and fair result that illustrates a
19 willingness of the parties to find common ground, and to reach a
20 compromise position that provides benefits for both the residents of Eagle
21 Crest and Goodman.

1 **Q. Why is a negotiated compromise an appropriate way to resolve this**
2 **rate case?**

3 A. The Settlement Agreement brings clarity and regulatory certainty without the
4 risk of protracted litigation and appeals. Furthermore, the Settlement
5 Agreement finds middle ground between the disputing parties who
6 participated in the negotiations.

7
8 Most importantly, this settlement has the unique perspective of providing an
9 opportunity to resolve the acrimony that currently exists between the
10 community and the Company. In the absence of a settlement that finds
11 middle ground, it is likely that such hard feelings would persist.

12
13 Of course, the proposed Settlement Agreement in no way eliminates the
14 Commission's constitutional right and duty to review this matter and to make
15 its own determination whether the Settlement is truly balanced and the rates
16 are just and reasonable.

17
18 **Q. Was it appropriate to exclude Staff from settlement negotiations?**

19 A. Section 1.12 of the Settlement Agreement recites the rationale for not
20 inviting Staff to participate in the initial negotiations. RUCO recognizes that
21 Staff has put significant time and effort into creating and defending its
22 position in this rate case. RUCO understands that Staff may have preferred
23 the opportunity to participate in the construction of the Settlement

1 Agreement. Nonetheless, it is RUCO's hope that Staff will see the merit in
2 the terms of the Settlement. With all that said, Staff's ability to continue to
3 litigate its position is not affected by other parties reaching settlement.
4
5

6 SETTLEMENT PROVISIONS

7 **Q. Please summarize the main provisions of the Settlement Agreement.**

8 **A.** In summary, the Settlement Agreement provides as follows:

- 9 1. A \$138,000 overall revenue increase phased-in over three (3)
10 years.
- 11 2. Goodman agrees to forego all interest and foregone revenue
12 associated with the phase in of the rate increase.
- 13 3. The three (3) year phase-in is as follows:
14
 - 15 • Year 1 50%
 - 16 • Year 2 25%
 - 17 • Year 3 25%
- 18 4. FVRB set at \$1,755,118 (RUCO's surrebuttal FVRB position).
- 19 5. Signatory Parties reach no conclusion on whether any excess
20 capacity may or may not exist at this time. Any determination of
21 excess capacity will be determined in a future rate case on the
22 basis of the existing circumstances at that time.
- 23 6. Rates are frozen for four (4) years with Goodman not filing for
24 another rate increase until at least January 1, 2015.
- 25 7. Goodman retains the right to file for interim emergency rates if
26 necessary.
- 27 8. Goodman may defer accumulated depreciation on plant not
28 included in rate base but no interest may be recovered on the
29 deferred depreciation expense.
30
31
32
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37

Q. Why is the Settlement Agreement in the public interest?

A. The letters to the docket, the public comment meetings and the testimony presented at hearing for this rate case reveal the high level of discord and even anger in the Eagle Crest community over the proposed rate increase. As the case proceeded to hearing, it became clear that the disputed issues crystallized around two opposing views with a large divide of opinion between the two camps. On one side were Staff and the Company, recommending sizeable rate increases and inclusion of nearly all plant. On the other side were RUCO and the individual intervenors who proposed a nominal rate increase, or a rate decrease, and argued that almost half of the plant added since the last rate case was excess capacity and must be excluded from rate base. The Settlement resulted in a middle ground compromise with each party receiving some benefits and conceding on others.

	Revenue Increase	% Increase	FVRB
Company	\$260,649	43.85%	\$2,298,376
Staff	\$202,604	34.08%	\$2,077,253

VERSUS

	Revenue Increase	% Increase	FVRB
RUCO	\$ 8,715	1.47%	\$1,755,118
Intervenors	(\$77,517)	(13.04%)	\$1,317,239

SETTLEMENT

	Revenue Increase	% Increase	FVRB
Settlement	\$138,000	23.21%	\$1,755,118

1 Given the level of discord, any settlement reached between the parties
2 that can possibly ameliorate such discord, is worthy of serious
3 consideration. The present settlement, however, resolves the issues in a
4 manner that is both fair and reasonable to the Company and to its
5 ratepayers. For this reason, it is in the public interest.

6
7 **Q. In summary, what are the benefits to Goodman?**

8 A. From RUCO's perspective, the benefits to Goodman are as follows:

- 9 • Eliminates risks associated with RUCO's and Intervenor's claims of
10 excess capacity. RUCO and the individual intervenors waive their
11 rights to appeal should plant beyond the \$1,755,118 be added to
12 Goodman's FVRB. (Section 3.4)
- 13 • Goodman receives a 23.21% rate increase phased-in over three
14 years, totaling \$138,000. (Section 2.1)
- 15 • Goodman may defer \$269,307 of accumulated depreciation through
16 the end of the test year and defer the recording of annual
17 depreciation of \$44,136 on utility plant not included in rate base for
18 the purpose of this rate case during the "stay out" period. (Section
19 2.3)
- 20 • While the Settlement Agreement freezes rates for four years,
21 Goodman may file for emergency rates during that time period if
22 necessary.
- 23 • Improved relations with the community.

- Resolves disputed rate case issues including land valuation, excess capacity, and rate case expense thereby reducing the risk of protracted litigation costs.

Q. Is the deferral of accumulated depreciation and annual depreciations expense fair to both Goodman and ratepayers?

A. Yes. This was part of the good faith "give and take" of the negotiation process. RUCO recommended this same accounting treatment in its surrebuttal testimony prior to settlement negotiations. The Settlement Agreement adopts RUCO's recommended adjustments to the test year levels of accumulated depreciation and annual depreciation expense. The provision preserves the amount of accumulated depreciation associated with a portion of utility plant that represents possible excess capacity and allows Goodman to recover annual depreciation expense on that portion of utility plant during the four year stay out period.

Q. Will Goodman realize interest on the deferred annual depreciation expense adjustment?

A. No.

Q. Has the Commission ever approved such a deferral in the past?

A. In part. In Decision No. 70662, the Commission approved the deferral of depreciation expense on plant not placed in rate base for Gold Canyon

1 Sewer Company (Docket No. SW-02519A-06-0015). However, that
2 Decision allowed the utility to collect accrued interest. Under the terms of
3 the Settlement Agreement, Goodman may not recover interest on the
4 deferred depreciation expense. (Section 2.4)

5
6 **Q. What are the benefits to the ratepayers?**

7 **A.** From RUCO's perspective, the benefits to Goodman are as follows:

- 8 • Goodman's FVRB is set at \$1,755,118. (Section 2.2)
- 9 • The overall revenue increase of \$138,000 is significantly less than
10 what either Staff or Goodman recommends. (Sections 1.9 and 2.1)
- 11 • The rate increase is phased in over three (3) years. (Section 2.6)
- 12 • Goodman waives its right to foregone revenues and any accumulated
13 interest associated with the phase in period. (Section 2.6)
- 14 • Goodman is not entitled to receive accrued interest on the amount of
15 deferred depreciation expense. (Section 2.4)
- 16 • Goodman may not file for another rate increase for at least four (4)
17 years (Section 2.8)
- 18 • The rate design adopted in the Settlement Agreement provides a
19 small rate decrease for the first year for customers who use less than
20 3,000 gallons per month.
- 21 • Defers the excess capacity argument to a future rate case with the
22 possibility of having this issue become moot if the developers are

1 able to build out the community completely during the next four
2 years.

- 3 • Resolves disputed rate case issues including land valuation, excess
4 capacity, and rate case expense thereby reducing the risk of
5 protracted litigation costs.

6
7 **Q. Why is it important to resolve the rate case expense and excess**
8 **capacity issues?**

9 **A.** Perhaps the most contentious issue in this rate case is the issue of excess
10 capacity. The community is very aware of it and the Intervenor and
11 RUCO have taken a strong position of removing excess capacity from rate
12 base. The Company and Staff hold positions opposite those of RUCO
13 and the Intervenor and claim that little or no excess capacity exists on the
14 Goodman system. A Commission Decision that would include most of the
15 plant in rate base would only exacerbate the ill will that currently exists
16 between the Company and the community.

17
18 The Settlement Agreement makes no determination on the issue of
19 excess capacity. In fact, any determination of the issue would be resolved
20 in a future rate case. RUCO views the deferral of this important issue as a
21 benefit in two ways. First, the Settlement Agreement adopts RUCO's
22 FVRB of \$1,755,118 which is considerably lower than the FVRB
23 recommended by either Goodman or Staff. Second, this provision

1 encourages the community to support lot sales which in turn would
2 diminish if not eliminate the excess capacity issue in a future rate case.
3 This approach benefits both the ratepayer and the utility because of the
4 possibility of eliminating future litigation on this issue.

5
6 Rate case expense is also a hotly contested issue with each party
7 entrenched in its position. While not as large of an issue as excess
8 capacity, it certainly is an emotional one for the parties. The Settlement
9 Agreement resolves it in a manner acceptable to all signatories.

10
11 **RATE INCREASE/RATE STABILITY**

12 **Q. Why is four (4) year rate freeze an important element in this**
13 **Settlement?**

14 **A.** The four (4) year rate freeze provides security to the residents of Eagle
15 Crest that their water rates will not increase beyond the phased-in rates
16 established in the Settlement Agreement. This stability gives the community
17 comfort that prospective purchasers of homes won't be scared off by the
18 threat of looming rate spikes. It also provides the Company an incentive to
19 get as many lots developed as possible in order to bring the community to
20 full build out.

RATE IMPACT

Q. What is the impact on the average and median residential bill for the three years of the phase-in of the rate increase?

A. Here is a comparison of the percentage of rate increase for the average residential customer under the three-year phase in.

<u>5/8 x 3/4</u>	<u>Current</u>	<u>Goodman</u>	<u>Staff</u>	<u>RUCO</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Avg. 5,520 gal.	---	41.01%	38.1%	(0.2%)	11.3%	17.2%	23.0%

<u>3/4</u>	<u>Current</u>	<u>Goodman</u>	<u>Staff</u>	<u>RUCO</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Avg. 6,028 gal.	---	38.64%	35.4%	(1.9%)	9.0%	14.8%	20.5%

Here is a comparison of the bill impact for the average residential customer.

<u>5/8 x 3/4</u>	<u>Current</u>	<u>Goodman</u>	<u>Staff</u>	<u>RUCO</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
5,520 gal.	\$66.98	\$94.46	\$92.51	\$66.84	\$74.55	\$78.49	\$82.36

<u>3/4 in.</u>	<u>Current</u>	<u>Goodman</u>	<u>Staff</u>	<u>RUCO</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
6,028 gal.	\$91.08	\$126.28	\$123.29	\$89.39	\$99.29	\$104.57	\$109.71

1 **Q. Why does RUCO support rate increases beyond the 1.47% rate**
2 **increase it recommended in litigation?**

3 A. RUCO recognizes that it supports a proposed settlement that increases
4 rates higher than what RUCO originally recommended at hearing. But,
5 negotiations are a series of give and take. In exchange for the rate
6 increase in the Settlement Agreement, the Settlement Agreement also
7 adopts RUCO's FVRB figure of \$1,755,118.

8
9 RUCO considers the FVRB of \$1,755,118 a key element of the Settlement
10 Agreement. At hearing, RUCO insisted that almost 50% of plant added
11 since the last rate case was not used and useful and, therefore, must be
12 excluded from rate base. RUCO's position is in direct conflict with that of
13 Staff and Goodman.

14
15 A \$1,755,118 FVRB serves the interest of both the utility and the
16 residents. For the residents, had the Commission adopted the Fair Value
17 Rate Base figures recommended by either Goodman or Staff, the
18 residents would have been subject to an immediate rate spike of up to
19 43%. It would be almost impossible to argue in a future rate case that
20 plant that had once been included in rate base should now be excluded
21 from rate base.

1 Under the terms of the proposed Settlement Agreement, the rate base
2 remains largely unchanged from the FVRB established in Goodman's prior
3 rate case. In exchange for a three year phased in rate increase, the issue
4 of excess capacity is pushed off for another four years. During those four
5 years, the community has an opportunity to work with Goodman to bring
6 Eagle Crest as close to full build out as possible. If that does happen,
7 then at the end of four years, the issue of excess capacity will be moot. At
8 that time, from RUCO's perspective, the infrastructure that is already built
9 out to serve the entire community will now actually be used and useful.

10
11 **Q. How does the rate design impact low usage customers?**

12 **A.** The rate design mitigates the rate impact for low usage customers. While
13 the average rate impacts are listed above, the impacts are smaller for those
14 who use less than the average number of gallons. Conversely, customers
15 who use an above average amount of water in a month will see a higher bill
16 impact.

17
18 The rate design adopted by the Settlement Agreement provides a rate
19 decrease in the first year for the low usage customers. Customers using
20 3,000 gallons or less will see anywhere from a -1.8% to a -3.0% rate
21 decrease for the first year. In reviewing the test year bill counts,
22 approximately 159 customers (out of Goodman's 626 customers) will
23 receive a small decrease in the first year. RUCO took note of one

